

waiting for the booster shot

The last few years have witnessed a phase of restructuring in the equipment rentals industry but the government and rental companies, and the OEMs need to get together to address some pertinent issues.

Agith G Amery

Photo courtesy: Hyundai Construction Equipment India



India is emerging as a key international market for equipment rentals. Rental equipment has become one of the leading end-use markets for construction and industrial equipment. The growth of this sector is interlinked with the growth of the Indian economy and indirectly with the growth of infrastructure. Today,

the industry is being run differently as compared with earlier times. For the most part, this is how the emerging power sectors machines are not kept for long in rental fleets, the used equipment market is increasing in size, rental rates are declining, and the equipment resale market is expanding in

India. Even the way equipment is rented and sold is changing, with e-commerce taking over, especially through auction sites. The traditional role of original equipment manufacturers, dealers and representatives are also changing.

Going by the European experience, equipment purchases for the rental industry constitute 30-40 per cent of the entire purchase package. Taking a conservative view and with the Indian market evolving, a 15-20 per cent share of the purchases would result in the rental industry growing to Rs-8,000 crore by 2010.

But, what is the current status of the rental industry? How has the financial crisis adversely affected the sector? EQUIPMENT INDIA brings you a local picture of where the industry is today, and what needs to be done to make the industry a par with its international counterparts.

"In the current economic slowdown, almost every industry has been affected but the same is not the case with the rental industry as the present financial crisis has not made a huge dent in it. We still experience a GDP of five to six per cent which is very remarkable in times of

recession, coupled with plans to bring overseas players to invest in the Indian market," points out Rajiv Sethi, Managing Director, GEAR.

According to Sethi, every entity is re-organising their way of operating and as such, a trend has been set, to go for some restructuring whether the circumstances call for it or not. During recession, a customer wants to reap maximum rewards from his investments for which the machines have to be in top condition at all times. Proper upkeep goes a long way in meeting this objective as well as promoting the health of the machine. Says Sethi, "It is pivotal for us as equipment rental companies to provide continuous working on projects and reduce the breakdown implications."

"Rental companies worldwide have drastically reduced their fleet investments and general capex. Some of them de-fleet which reduces cost lines and generates cash flows. We are also putting brakes on our capex plans and adjusting our fleet size according to market demands. We are closely watching all our cost lines. However, these hard times are providing

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Photo courtesy: Escorts Construction Equipment Ltd.

There is an urgent need to unify different rules in different states to make inter-state movement of machines trouble free.



in with opportunities to diversify our customer base," says Philippe Clover, President, Quippo Construction Equipment Ltd. "Usually will be moderate this year. These are uncertain times and the new future is difficult to predict. We will emphasize on the quality of our existing relationship with our customers. Profitability levels will largely depend on how well we diversify our business and how we manage our cost lines," Clover points out.

According to N Raghav Reddy, Vishnu Infrastructure Engineering Pvt Ltd, "As far as the rental business is concerned, we have not felt the pinch as yet. In fact, the present crisis is a blessing in disguise for the rental business." He adds, "We are sure that 40 per cent of the total outlay for infrastructure and construction industry will be the size of rental business. This will further grow since the major players are in a mood to outsource rather than maintain a white elephant."

Growing size

"The estimated value of the rental industry in 2007 reached a base of \$ 400 million (Rs 150 crore). The penetration rate (the extent of rented equipment in a contractor's fleet) for equipment rentals is currently just around seven per cent which is pretty dismal. Informed estimates predict that this number may go to 25 per cent in the next three years. The rate of growth might be slow as compared to what we expected but for sure, growth is bound to be there from all spheres," points out Sethi.

Infrastructure spending has a cascading impact on the economy and in recessionary times, infrastructure spending can stimulate growth and produce jobs. A CII-KPMG report estimates that over the next eight years, about \$1 trillion investments would be made in infrastructure projects which clearly will pave the way for growth of the rental industry as there will be more demand for equipment for various projects throughout India.

According to Clover, the rental industry is very big business in all the developed countries, with revenues over US \$ 42 billion in the US and Euro 24 billion in Europe. It will also surge in the emerging giants like Brazil, India and China in the coming years. "Today's global downturn is affecting the equipment rental business, like many other businesses. But the rationale for renting versus buying is



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getting more obvious to a growing number of companies," Clover adds.

Global trends

According to Clover, the global trend is towards diversification in order to counter-balance the cycles of construction business. In India, the major challenge for the rental business is to make itself recognised by those in charge of public works, the central government, state governments, tax authorities, in a sector that allows best use of infrastructure capital

machinery since it is shared by multiple users. The rental business will only grow in India if machines are allowed to move freely throughout the country to be used where needed.

Equipment acquisition and rentals run parallel, as the requirement of equipment for the kind of existing projects is really huge. There is a need to introduce good quality machines, provide better service, ensure timely delivery and also provide better operating crew to the customer, says Reddy.



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Serbi points out that equipment rental sector is dominated by the unorganised players with local presence. Many of these players buy and ply used, reconditioned and obsolete equipment with little or no care towards maintenance or operating conditions. While one way to look at this is that the customer gets to see a cheap rental rate option, availability steadily drops in and utilisation and production offered is much lower than offered by users deployed from the organised players. Eventually, project work suffers and the nation deadline-oriented companies would rather rent from the organised player. Serbi, who also heads the Rental Association of India, explains that RAI is all set to bring about consolidation which is definitely critical as the industry consists of only a few organised players. Consolidation will lead to linear growth as the players will be focused on the business rather than smaller operators, specifically the ones who were too but cannot grow the business for lack of finance or management bandwidth and international exposure.

Government's role

The government has a large role to play in the success of the rental industry,

which it seems to be ignoring, at least for the time being. Talk to any rental company and their common problem is that of different rules in different states, making inter-state travels a nightmare. Added to this are the bureaucratic forms and norms to be complied in quadruplicate at least, with attestations, photographs, affidavits and lots of pains to procure.

Maybe lessons need to be learned from some of the mature rental markets and some of their practices emulated, like forming an association of rental companies so that some of these issues could be lobbied for redressal. After all, if this industry touches levels like its expected 10 per cent of total equipment sold in the country, there's a lot of revenue in the offing for the government, enough for them to sit up and take notice. If construction companies and the government together address some of these issues, we would have made a good beginning, says Serbi.

The focus of RAI is on having a rental agreement between customers and rental companies. Issues such as the need to specify fixed rates (weekly, monthly, yearly), the concept of a security deposit, number of working hours and extra

operational and equipment costs, all need to be tackled. Payment and penalty norms, accident liability, de-hiring regulations and government rulings regarding the sector, are other issues which are due for deliberation.

The future

According to sources, the last few years have witnessed a phase of restructuring in the industry through acquisitions and joint ventures which reflects the active interest of international majors in the domestic markets.

It may take the market a while to evolve and become structured and organised with well laid-out practices like in the developed markets. The industry needs to speed up the process of benchmarking and consider the needs of the market with a futuristic vision. It has become imperative that a strong, need-based interface is created between the OEMs, rental companies, and most importantly the end users.

There is also the need to have a crystal clear focus on adopting advanced features, offering realistic prices, timely delivery and a reliable service package to the end users.